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MAR 1952

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CENTRAL INTELLIGENCE AGENCY

INFORMATION FROM FOREIGN DOCUMENTS OR RADIO BROADCASTS

REPORT

CD NO.

COUNTRY China

SUBJECT Economic - Taxes

DATE OF INFORMATION 1951

HOW PUBLISHED Monograph

DATE DIST. 19 Oct 1953

WHERE PUBLISHED Peiping

NO. OF PAGES 5

DATE PUBLISHED Mar 1951

LANGUAGE Chinese

SUPPLEMENT TO REPORT NO.

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SOURCE Hsin Ching-chi Lun-ts'ung (Symposium on the New Economy) compiled by T'ao Ta-yung, published by the Shih-yueh Publishing Company, pp 102-110

TAX THEORIES AND POLICIES IN CHINA

Chou Po-ti

Enterprise From the Tax Viewpoint

Taxes are levied by nations to finance national projects. They may be either commodity (ad rem) taxes or personal (in personam) taxes. Commodity taxes are levied on merchandise and personal taxes are levied either on natural persons or on legal persons, which are corporations. Both native and foreign persons or corporations are subject to taxation. Concentration on consumer taxes means concentration on commodity taxes. Concentration on direct taxes means concentration on personal taxes, whose main source of revenue is legal persons or corporations. Here we may differentiate agricultural taxes from taxes on industry and commerce, since industry and commerce are the source for revenue derived from personal enterprise, and agricultural taxes are levied on commodities.

Taxes From the Enterprise Viewpoint

The suitable tax may be a commodity tax, a gross receipts tax, an income tax, or a combination of two kinds of taxes. There must be a standard for determining the suitable tax. Ability to pay is not the standard, for from the state's viewpoint a heavy tax may be levied as a restrictive tax on businesses with small ability to pay; while to encourage other businesses, a light tax may be levied even though such businesses have large profits.

Tax Policies

First, the object of the tax must be selected and then the type of tax applied that is suited to that object. Next, specific taxes for various businesses must be selected and also the methods of levying these taxes.

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The principles for taxation are:

1. Industrial taxes should be lighter than commercial taxes since industry is basic. Some industrial taxes can be eliminated.

2. Taxes on the manufacture and production of tools and essential goods should be lighter than on the manufacture of luxury items and on nonessential items. Taxes should be less on the most important industries in order to encourage them.

3. A single tax, like the gross receipts tax, rather than several petty taxes should be levied to unify the tax system. That is not to say that industry and commerce should bear only one tax. For example, industry and commerce pay real estate and land taxes, which are municipal administrative taxes; they also pay a commodity tax on merchandise which becomes a part of the price of an item. Then, there is the gross receipts tax which we are considering here.

The tax policy of the government is designed to protect commerce and industry. By this we do not mean that we adopt an attitude of indifference and concession toward capitalism, but rather one of guidance, control, and restriction to make it conform to the development of the economy of the new democracy.

Present Industrial and Commercial Taxes

How many taxes may there be in accordance with the above revenue policies? Within the present tax program, under industrial taxes there are customs duties and commodity taxes. Under customs duties there are financial tariffs and protective tariffs. The financial tariff has solely a financial goal, and no relation to industrial taxes. The protective tariff protects the establishment of industries in this country and may be called a kind of positive industrial tax. The commodity tax is levied on particular industries and there is no question as to its being an industrial tax.

There are two types of commercial taxes: the business tax and the corporation income tax. The business tax is a gross receipts tax on corporations. The corporation income tax is levied on the net receipts of corporations. The tax on gross receipts is lighter than that on net receipts, but both taxes are heavy and tend to equalize the tax burden.

Under the KMT, the tax on financial enterprises was of two types: a special business tax and a corporation income tax. After liberation, this special business tax was rescinded and the tax on financial enterprises is now levied as the business and corporation income tax.

Taxes common to the three types: Stamp taxes, including license taxes, are common to commercial, industrial, and financial enterprises; other than this, there are the production license tax and personnel taxes which are relatively unimportant.

Some Important Commercial Taxes

Of the taxes mentioned above, only the stamp tax is relatively unimportant. The customs duties, commodity tax, business tax, and corporation income tax are important, and they are interrelated. They can be described as follows:

1. Customs Duties

Customs duties are levied on exports and imports. Before a customs duty is levied, there must be a system of trade regulations. Under the KMT trade regulations in Shanghai, the import and export system was a selective

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one of permitted and prohibited items. Imports were divided into three classes: (a) permitted imports; (b) specially permitted imports; and (c) prohibited imports. Exports were divided into the same three categories.

In general, in accordance with these categories, exports and imports were permitted only by the approval of the Foreign Trade Administration Bureau. This we may term control of commodities. In addition, the actual trade had to be approved by the control bureau which issued licenses required for operations. This may be considered as regulation of people.

In general, approved merchandise may at present be exported or imported, and the exports are not taxed. Imported goods are taxed. This import tax is levied provisionally by the Maritime Customs Schedule. This Maritime Customs Schedule, promulgated 2 August 1948, is the old tax law and it will eventually have to be changed. Under this law, import trade is divided into 15 categories which are taxed on a sliding scale. The lowest rate is 5 percent; the highest rate is 200 percent ad valorem. In these taxes there are protective tariffs and financial tariffs. The financial tariffs do not concern industry but the protective tariffs do. For articles on which these taxes are levied, which are brought in by foreign transport, an additional cargo tax is levied. This cargo tax is to protect industry within the country and is classed as an industrial tax.

2. Commodity Taxes

Commodity taxes include the control tax, the mine tax, and the tobacco and wine tax. Recently, the commodity tax for East China was adjusted, unified, and classified into 17 classes.

The 17 classes of commodity taxes and their rates are as follows:

Commodities	Taxes (in %)
1. Tobacco	30-100 (five classes)
2. Wine	80-100
3. Fibers	5- 15
4. Hides, furs, and feathers	5
5. Cosmetics	10- 40
6. Spices	10
7. Beverages	30
8. Sugar	25
9. Wheat flour	2.5
10. Matches	15
11. Cement	5
12. Glass	5
13. Colors and dyestuffs	5
14. Religious articles	6
15. Mineral products	3- 10
16. Marine products	5
17. Agricultural and forest products	5

The old wine and tobacco tax was incorporated into the wine tax in Item 2. Mine production has been incorporated into Item 15.

3. Business Tax

In China there are two kinds of business taxes, ordinary and special. The ordinary business tax is levied on commercial enterprises; the special business tax applies to banks, credit agencies, insurance companies, and other

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special businesses. At present, the special business tax has been discarded, so in discussing business taxes we need only consider the ordinary business tax. The fiscal collection period under the existing business tax is 2 months; for short-term or temporary businesses the fiscal period is for their duration.

The standard for levying taxes is the gross income of the business. The tax is levied on a commercial business, when the gross income for each fiscal period is 1,500,000 yuan and above; on a single business transaction, when it is 400,000 yuan and above. In financial enterprises, taxes are levied when incomes are 400,000 yuan and above, or on a single business transaction of 100,000 yuan and above. The tax rate for ordinary commercial enterprise is from .5 percent to 2 percent according to a scale of seven items. In financial enterprises the rate is from 2.5 percent to 3 percent. The brokerage taxes, etc., are fixed at 4 percent.

Compared with the former rates, taxes on the whole have been reduced. Examination of tax documents has been discarded and replaced with a system of automatic reporting and paying. On the other hand, false accounts are not permitted.

4. Corporation Income Tax

Under the KMT, the income tax was divided into categorized income tax and gross income tax. There were five subdivisions of the categorized income tax, and the corporation income tax was the first of these categories. The gross income tax actually did not produce good results. Of the categories under the income tax, the receipts from the corporation income tax were the greatest, and, on the average, accounted for 80 percent of the income tax recepits. The former East China gross income tax has already been officially discarded and the principles of taxation of the new gross income tax have been announced as follows:

a. Point at which taxation starts: Factories and commercial organizations with large incomes shall fall under this tax, smaller commercial organizations shall not.

b. Tax rate: The tax rate shall be determined by a system of fixed amounts from 5 to 20 percent in graduated steps. Generally speaking, the tax rate is high on commercial enterprises, next highest on ordinary industries, and lowest on basic and manufacturing industries.

Computation of Income

In calculating net profit the goods on hand at the beginning of inventory will be estimated at the closing inventory price in order to prevent any falsification of accounts.

The business tax is a gross receipts tax and uses the gross income as the basis for taxation according to the principle of profit taxes; the statutory fiscal period is 2 months. The corporation income tax is an income tax based on net income and levied according to the principle of ability to pay; it uses the fiscal period of one year. The business tax is comparatively light and is used for municipal administration expenses; the corporation income tax is larger and is levied on large incomes for the support of national programs. Therefore, the former is a local tax and the latter is a national tax. In theory, the two taxes ought to be continued and in reality can be continued.

Apart from this there are real estate taxes. Dwellings are taxed less than buildings used for business. In Shanghai, the former tax is 8 percent and the latter is 14 percent. This larger tax is also an industrial and commercial tax. Business taxes also include a license tax. At present, commercial enterprises only have to be registered and do not have to apply for commercial licenses. The commercial license tax will be discarded.

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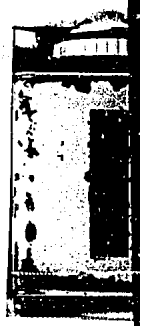

Conclusion

Agricultural taxes supplement business taxes, represented by the land tax and assessment taxes. Naturally the assessment tax is adapted to cities and any assessment tax which deals with cities must be a kind of business tax. If there is an assessment tax on private land, then industry and commerce must be taxed on land for industrial and commercial enterprises just as on buildings.

What is the relationship between business and agricultural taxes? In the past, the agricultural tax has been the heavier, and this condition must be further rectified. In business taxes, there are indirect and direct taxes. Commodity taxes and customs taxes are indirect taxes. Business and corporation income taxes are direct taxes. The burden of the commodity tax is not borne by the business or by the commercial enterprise, but is passed on entirely to the consumer. In the case of direct taxes, the business tax may also be passed on, but the corporation income tax is difficult to pass on. Therefore, the ideal consumer tax ought to be one in which a part is borne by the producers or by the suppliers of raw materials; the ideal direct tax should be organized to prevent so much passing on. From this viewpoint the corporation income tax is better than the business tax.

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